

**FARRAGUT  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2010

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**FARRAGUT COMMUNITY SCHOOL DISTRICT**

**Officials**

| <u>Name</u>                             | <u>Title</u>   | <u>Term Expires</u> |
|---|----------------|---------------------|
| <b>Board of Education</b>               |                |                     |
| <b>(Before September 2009 Election)</b> |                |                     |
| Robert Lynn                             | President      | 2009                |
| Stacie Scroggie                         | Vice President | 2011                |
| Rob Lightfoot                           |                | 2009                |
| Kelly Carey                             |                | 2009                |
| Jenny Varellas                          |                | 2011                |
| Diane Dee Owen                          |                | 2011                |
| Monica Whitehead                        |                | 2011                |

**(After September 2009 Election)**

|                  |                           |      |
|------------------|---------------------------|------|
| Robert Lynn      | President                 | 2013 |
| Stacie Scroggie  | Vice President            | 2011 |
| Rob Lightfoot    |                           | 2013 |
| Kelly Carey      |                           | 2013 |
| Jenny Varellas   | (Appointed October, 2009) | 2011 |
| Diane Dee Owen   |                           | 2011 |
| Monica Whitehead |                           | 2011 |

**School Officials**

|                   |                    |
|-------------------|--------------------|
| Jay Lutt          | Superintendent     |
| Pam Nebel         | District Secretary |
| Harriette Latimer | District Treasurer |

# BRUCE D. FRINK

## Certified Public Accountant

### Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

### Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

### Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

### Independent Auditor's Report

To the Board of Education of  
Farragut Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Farragut Community School District, Farragut, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Farragut Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2011 on our consideration of Farragut Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 11 and 33 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Farragut Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce D. Frink*

**BRUCE D. FRINK**  
**Certified Public Accountant**

April 21, 2011

## FARRAGUT COMMUNITY SCHOOL DISTRICT

### Management's Discussion and Analysis

Farragut Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

#### 2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,787,302 in fiscal year 2009 to \$2,922,646 in fiscal year 2010 (5% increase), while General Fund expenditures increased from \$2,760,107 in fiscal year 2009 to \$3,077,022 in fiscal year 2010 (12% increase).
- The District has a 0.3% solvency ratio, a strong indicator of a District's financial position. 5% - 10% is a commonly recommended range.
- BEDS enrollment (actually attending the District) decreased by 21.4 students. Open enrollment out exceeds open enrollment in by 36 students.
- The District has begun sharing administrators with Hamburg in an attempt to generate additional funding while reducing costs. Further sharing opportunities are being explored.

#### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Farragut Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Farragut Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Farragut Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as the Schedule of Funding Progress for the Retiree Health Plan

Other Supplementary Information provides detailed information about the Student Activity and Trust Funds and a multiyear comparison of revenues and expenditures.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Farragut Community School District Annual Financial Report**

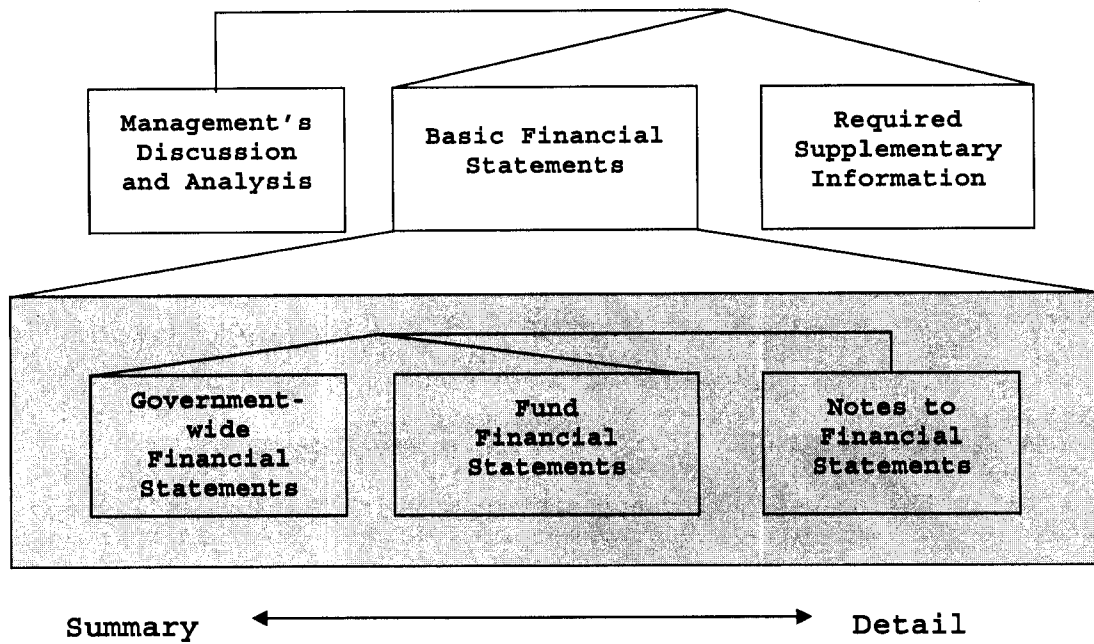


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

| <b>Figure A-2</b><br><b>Major Features of the Government-wide and Fund Financial Statements</b> |  |  |  |   |
|---|--|--|--|---|
|   | Government-wide Statements   | Fund Statements  |  |   |
|   |  | Governmental Funds   | Proprietary Fund   | Fiduciary Funds   |
| Scope   | Entire District (except fiduciary funds)   | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance   | Activities the District operates similar to private businesses: food services and internal service   | Instances in which the district administers resources on behalf of someone else, such as scholarship programs                                 |
| Required financial statements   | <ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>  | <ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul> | <ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul> |
| Accounting basis and measurement focus  | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus  | Accrual accounting and economic resources focus   |
| Type of asset/liability information   | All assets and liabilities, both financial and capital, short-term and long-term                               | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included   | All assets and liabilities, both financial and capital, short-term and long-term   | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can                   |
| Type of inflow/outflow information  | All revenues and expenses during year, regardless of when cash is received or paid                             | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid   | All additions and deductions during the year, regardless of when cash is received or paid   |



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District also has an Internal Service Fund to administer the flex spending accounts.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

| Figure A-3<br>Condensed Statement of Net Assets<br>(Expressed in Thousands) |                            |       |                             |      |                   |       |                 |
|---|----------------------------|-------|-----------------------------|------|-------------------|-------|-----------------|
|   | Governmental<br>Activities |       | Business Type<br>Activities |      | Total<br>District |       | Total<br>Change |
|   | June 30,                   |       | June 30,                    |      | June 30,          |       | June 30,        |
|   | 2010                       | 2009  | 2010                        | 2009 | 2010              | 2009  | 2009-2010       |
| Current assets  | \$ 2,263                   | 2,882 | 5                           | 8    | 2,268             | 2,890 | -21.52%         |
| Capital assets  | 869                        | 885   | 1                           | 1    | 870               | 886   | -1.81%          |
| Total assets  | 3,132                      | 3,767 | 6                           | 9    | 3,138             | 3,776 | -16.90%         |
| Current liabilities   | 1,485                      | 2,057 | 1                           | 6    | 1,486             | 2,063 | -27.97%         |
| Non-current liabilities   | 12                         | -     | -                           | -    | 12                | -     | 0.00%           |
| Total liabilities   | 1,497                      | 2,057 | 1                           | 6    | 1,498             | 2,063 | -27.39%         |
| Net Assets  |                            |       |                             |      |                   |       |                 |
| Invested in capital assets,<br>net of related debt                          | 869                        | 885   | 1                           | 1    | 870               | 886   | -1.81%          |
| Restricted  | 540                        | 421   | -                           | -    | 540               | 421   | 28.27%          |
| Unrestricted  | 226                        | 404   | 4                           | 2    | 230               | 406   | -43.35%         |
| Total net assets  | \$ 1,635                   | 1,710 | 5                           | 3    | 1,640             | 1,713 | -4.26%          |

Total net assets decreased by over 4% primarily due to a decrease in the General Fund. This also caused unrestricted assets to be cut nearly in half. Restricted assets grew due to an increase in the Capital Projects Fund.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

**Figure A-4**  
**Changes in Net Assets**  
**(Expressed in Thousands)**

|   | Governmental Activities |              | Business Type Activities |            | Total School District |              | Total Change    |
|---|-------------------------|--------------|--------------------------|------------|-----------------------|--------------|-----------------|
|   | 2010                    | 2009         | 2010                     | 2009       | 2010                  | 2009         | 2009-2010       |
| Revenues:   |                         |              |                          |            |                       |              |                 |
| Program revenues:                                       |                         |              |                          |            |                       |              |                 |
| Charges for service and sales                           | \$ 294                  | 243          | 55                       | 61         | 349                   | 304          | 14.80%          |
| Operating grants, contributions and restricted interest | 710                     | 514          | 53                       | 48         | 763                   | 562          | 35.77%          |
| General revenues:                                       |                         |              |                          |            |                       |              |                 |
| Property tax  | 1,183                   | 1,186        | -                        | -          | 1,183                 | 1,186        | -0.25%          |
| Income surtax   | 151                     | 156          | -                        | -          | 151                   | 156          | -3.21%          |
| Statewide sales, services and use tax                   | 175                     | 152          | -                        | -          | 175                   | 152          | 15.13%          |
| Unrestricted state grants                               | 746                     | 841          | -                        | -          | 746                   | 841          | -11.30%         |
| Unrestricted investment earnings                        | 8                       | 19           | -                        | -          | 8                     | 19           | -57.89%         |
| Other   | 29                      | 26           | -                        | -          | 29                    | 26           | 11.54%          |
| Total revenues  | <u>3,296</u>            | <u>3,137</u> | <u>108</u>               | <u>109</u> | <u>3,404</u>          | <u>3,246</u> | <u>4.87%</u>    |
| Program expenses:                                       |                         |              |                          |            |                       |              |                 |
| Governmental activities:                                |                         |              |                          |            |                       |              |                 |
| Instruction   | 2,075                   | 1,870        | -                        | -          | 2,075                 | 1,870        | 10.96%          |
| Support services  | 1,095                   | 968          | -                        | -          | 1,095                 | 968          | 13.12%          |
| Non-instructional programs                              | -                       | -            | 106                      | 110        | 106                   | 110          | -3.64%          |
| Other expenses  | 199                     | 181          | -                        | -          | 199                   | 181          | 9.94%           |
| Total expenses  | <u>3,369</u>            | <u>3,019</u> | <u>106</u>               | <u>110</u> | <u>3,475</u>          | <u>3,129</u> | <u>11.06%</u>   |
| Change in net assets                                    | \$ <u>(73)</u>          | <u>118</u>   | <u>2</u>                 | <u>(1)</u> | <u>(71)</u>           | <u>117</u>   | <u>-182.05%</u> |

Property tax and unrestricted state grants account for 57% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 91% of the total expenses. This reflects the District's commitment to concentrating funds where they most directly affect students.

#### Governmental Activities

Revenues for governmental activities were \$3,294,280 and expenses were \$3,369,302 for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities; instruction, support services and other expenditures, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
**(Expressed in Thousands)**

|                  | Total Cost of Services |              |                  | Net Cost of Services |              |                  |
|------------------|------------------------|--------------|------------------|----------------------|--------------|------------------|
|                  | 2010                   | 2009         | Change 2009-2010 | 2010                 | 2009         | Change 2009-2010 |
| Instruction      | \$ 2,075               | 1,870        | 10.96%           | 1,185                | 1,225        | -3.27%           |
| Support services | 1,095                  | 968          | 13.12%           | 1,085                | 952          | 13.97%           |
| Other expenses   | <u>199</u>             | <u>181</u>   | <u>9.94%</u>     | <u>96</u>            | <u>85</u>    | <u>12.94%</u>    |
| Totals           | <u>\$ 3,369</u>        | <u>3,019</u> | <u>11.59%</u>    | <u>2,366</u>         | <u>2,262</u> | <u>4.60%</u>     |

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$294,106.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$482,628.
- The net cost of governmental activities was financed with \$1,181,401 in property tax and \$745,902 in state foundation aid.

#### **PROPRIETARY-TYPE FUNDS**

Revenues for the District's School Nutrition Fund were \$107,851 and expenses were \$106,165. The revenues include charges for services, contributions, and federal and state reimbursements.

The Nutrition Fund balance increased by almost \$1,700 due to cost control measures.

#### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The Farragut Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported combined fund balances of \$652,588, which is 7% less than last year's ending fund balance of \$704,855.

#### **Governmental Fund Highlights**

- The District's solvency ratio dipped below 1% at the end of the fiscal year. This is well below recommended levels.
- The District's enrollment decrease coupled with less than adequate allowable growth and mid year cuts continues to have an effect on the General Fund.
- The District continues to use PPEL and Capital Projects funds to maintain the District's facilities as well as purchase various items of equipment.

#### **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$2,519 at June 30, 2009 to \$4,205 at June 30, 2010.

#### **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year. The budget was not exceeded in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

## **CAPITAL ASSETS**

The District has invested more than \$975,000, net of accumulated depreciation, by the end of fiscal year 2009 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. Total depreciation expenses for the year exceeded \$109,000.

### **Long-Term Debt**

The District has no long-term debt except for retiree health insurance benefits. See note 9 to the financial statements for an explanation of this amount.

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Declining enrollment and inadequate increases in allowable growth will have the most significance on the Districts future.
- The District has begun sharing with neighboring districts, particularly Hamburg, in an effort to maintain educational offerings.
- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10- year period. The District was on budget guarantee for fiscal year 2010 and will continue to be. Due to previous and continued declining enrollment, the amount of this reduction due to the phase out of the budget guarantee will likely grow over the next several years.
- Achieving a strong solvency ratio will help offset the effects of declining revenues.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jay Lutt, Superintendent, Farragut Community School District, 907 Hartford Avenue, Farragut, Iowa 51639.

## Basic Financial Statements

## FARRAGUT COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

|   | Governmental<br>Activities | Business Type<br>Activities | Total            |
|---|----------------------------|-----------------------------|------------------|
| <b>Assets</b>                                   |                            |                             |                  |
| Cash  | \$ 680,309                 | 1,626                       | 681,935          |
| Receivables:                                    |                            |                             |                  |
| Property tax:                                   |                            |                             |                  |
| Current year                                    | 17,581                     | -                           | 17,581           |
| Succeeding year                                 | 1,264,804                  | -                           | 1,264,804        |
| Income surtax - succeeding year                 | 122,537                    | -                           | 122,537          |
| Due from other governments                      | 178,147                    | -                           | 178,147          |
| Inventories                                     | -                          | 3,736                       | 3,736            |
| Capital assets, net of accumulated depreciation | 868,739                    | 323                         | 869,062          |
| <b>Total assets</b>                             | <b>3,132,117</b>           | <b>5,685</b>                | <b>3,137,802</b> |
| <b>Liabilities</b>                              |                            |                             |                  |
| Accounts payable                                | 8,655                      | -                           | 8,655            |
| Accrued salary and benefits                     | 198,781                    | 704                         | 199,485          |
| Unearned revenues                               | -                          | 776                         | 776              |
| Deferred revenue:                               |                            |                             |                  |
| Succeeding year property tax                    | 1,264,804                  | -                           | 1,264,804        |
| Federal programs                                | 12,950                     | -                           | 12,950           |
| Long-term liabilities                           |                            |                             |                  |
| Net OPEB liability (due after one year)         | 11,596                     | -                           | 11,596           |
| <b>Total liabilities</b>                        | <b>1,496,786</b>           | <b>1,480</b>                | <b>1,498,266</b> |
| <b>Net assets</b>                               |                            |                             |                  |
| Invested in capital assets, net of related debt | 868,739                    | 323                         | 869,062          |
| Restricted for:                                 |                            |                             |                  |
| Capital projects                                | 390,486                    | -                           | 390,486          |
| Management Fund                                 | 93,861                     | -                           | 93,861           |
| Physical Plant and Equipment Levy               | 45,203                     | -                           | 45,203           |
| Health benefits                                 | 3,063                      | -                           | 3,063            |
| Categorical funding                             | 7,956                      | -                           | 7,956            |
| Unrestricted                                    | 226,023                    | 3,882                       | 229,905          |
| <b>Total net assets</b>                         | <b>\$ 1,635,331</b>        | <b>4,205</b>                | <b>1,639,536</b> |

See notes to financial statements.

## FARRAGUT COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2010

|   | Program Revenues |                        |  | Net (Expense) Revenue<br>and Changes in Nets Assets |                             |             |
|---|------------------|------------------------|--|---|-----------------------------|-------------|
|   | Expenses         | Charges for<br>Service | Operating Grants,<br>Contributions<br>and Restricted<br>Interest | Governmental<br>Activities                          | Business Type<br>Activities | Total       |
| <b>Functions/Programs:</b>                  |                  |                        |  |   |                             |             |
| Governmental activities:                    |                  |                        |  |   |                             |             |
| Instruction                                 | \$ 2,074,875     | 294,016                | 595,530  | (1,185,329)   | -                           | (1,185,329) |
| Support services:                           |                  |                        |  |   |                             |             |
| Student services                            | 64,406           | -                      | -  | (64,406)  | -                           | (64,406)    |
| Instructional staff services                | 109,555          | -                      | -  | (109,555)   | -                           | (109,555)   |
| Administration services                     | 524,899          | -                      | -  | (524,899)   | -                           | (524,899)   |
| Operation and maintenance of plant services | 245,558          | -                      | 10,792   | (234,766)   | -                           | (234,766)   |
| Transportation services                     | 150,940          | -                      | -  | (150,940)   | -                           | (150,940)   |
|   | 1,095,358        | -                      | 10,792   | (1,084,566)   | -                           | (1,084,566) |
| Other expenditures:                         |                  |                        |  |   |                             |             |
| AEA flowthrough                             | 102,458          | -                      | 102,458  | -   | -                           | -           |
| Facilities acquisition and construction     | 11,252           | -                      | 848  | (10,404)  | -                           | (10,404)    |
| Depreciation (unallocated)*                 | 85,359           | -                      | -  | (85,359)  | -                           | (85,359)    |
|   | 199,069          | -                      | 103,306  | (95,763)  | -                           | (95,763)    |
| Total governmental activities               | 3,369,302        | 294,016                | 709,628  | (2,365,658)   | -                           | (2,365,658) |



**FARRAGUT COMMUNITY SCHOOL DISTRICT**

Statement of Activities

Year ended June 30, 2010

|                                       | Program Revenues    |                        | Net (Expense) Revenue<br>and Changes in Nets Assets              |                    |
|---------------------------------------|---------------------|------------------------|--|--------------------|
|                                       | Expenses            | Charges for<br>Service | Operating Grants,<br>Contributions<br>and Restricted<br>Interest | Total              |
| Business type activities:             |                     |                        |  |                    |
| Non-instructional programs:           |                     |                        |  |                    |
| Nutrition services                    | 106,165             | 54,655                 | 53,196   | 1,686              |
| Total                                 | <u>\$ 3,475,467</u> | <u>348,671</u>         | <u>762,824</u>   | <u>(2,363,972)</u> |
| <b>General Revenues:</b>              |                     |                        |  |                    |
| Property tax levied for:              |                     |                        |  |                    |
| General purposes                      |                     |                        | \$ 1,095,517   | -                  |
| Management levy                       |                     |                        | 59,766   | -                  |
| Capital outlay                        |                     |                        | 26,118   | -                  |
| Income surtax                         |                     |                        | 151,119  | -                  |
| Statewide sales, services and use tax |                     |                        | 175,404  | -                  |
| Unrestricted state grants             |                     |                        | 745,902  | -                  |
| Unrestricted investment earnings      |                     |                        | 8,036  | -                  |
| Other                                 |                     |                        | 28,774   | -                  |
| Total general revenues                |                     |                        | <u>2,290,636</u>   | <u>2,290,636</u>   |
| Change in net assets                  |                     |                        | (75,022)   | 1,686              |
| Net assets beginning of year          |                     |                        | 1,710,353  | 2,519              |
| Net assets end of year                |                     |                        | <u>\$ 1,635,331</u>  | <u>4,205</u>       |
|                                       |                     |                        |  | <u>1,639,536</u>   |

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

## FARRAGUT COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2010

**Assets**

|                                 | General             | Student Activity | Management Levy | Physical Plant and Equipment Levy | Capital Projects | Total            |
|---------------------------------|---------------------|------------------|-----------------|-----------------------------------|------------------|------------------|
| Cash                            | \$ 122,411          | 104,980          | 92,972          | 44,806                            | 312,077          | 677,246          |
| Receivables:                    |                     |                  |                 |                                   |                  |                  |
| Property tax:                   |                     |                  |                 |                                   |                  |                  |
| Current year                    | 16,295              | -                | 889             | 397                               | -                | 17,581           |
| Succeeding year                 | 1,198,038           | -                | 40,000          | 26,766                            | -                | 1,264,804        |
| Income surtax - succeeding year | 122,537             | -                | -               | -                                 | -                | 122,537          |
| Due from other governments      | 99,738              | -                | -               | -                                 | 78,409           | 178,147          |
| <b>Total assets</b>             | <b>\$ 1,559,019</b> | <b>104,980</b>   | <b>133,861</b>  | <b>71,969</b>                     | <b>390,486</b>   | <b>2,260,315</b> |

**Liabilities and Fund Balance**

|  |                     |                |                |               |                |                  |
|--|---------------------|----------------|----------------|---------------|----------------|------------------|
| Liabilities:                               |                     |                |                |               |                |                  |
| Accounts payable                           | \$ 8,655            | -              | -              | -             | -              | 8,655            |
| Accrued salary and benefits payable        | 198,781             | -              | -              | -             | -              | 198,781          |
| Deferred revenue:                          |                     |                |                |               |                |                  |
| Succeeding year property tax               | 1,198,038           | -              | 40,000         | 26,766        | -              | 1,264,804        |
| Succeeding year income surtax              | 122,537             | -              | -              | -             | -              | 122,537          |
| Federal programs                           | 12,950              | -              | -              | -             | -              | 12,950           |
| Total liabilities                          | 1,540,961           | -              | 40,000         | 26,766        | -              | 1,607,727        |
| Fund balances:                             |                     |                |                |               |                |                  |
| Reserved for:                              |                     |                |                |               |                |                  |
| Categorical funding                        | 7,956               | -              | -              | -             | -              | 7,956            |
| Capital projects                           | -                   | -              | -              | -             | 390,486        | 390,486          |
| Unreserved, reported in:                   |                     |                |                |               |                |                  |
| Special revenue funds                      | -                   | 104,980        | 93,861         | 45,203        | -              | 244,044          |
| General fund                               | 10,102              | -              | -              | -             | -              | 10,102           |
| Total fund balance                         | 18,058              | 104,980        | 93,861         | 45,203        | 390,486        | 652,588          |
| <b>Total liabilities and fund balances</b> | <b>\$ 1,559,019</b> | <b>104,980</b> | <b>133,861</b> | <b>71,969</b> | <b>390,486</b> | <b>2,260,315</b> |

See notes to financial statements.

## FARRAGUT COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2010

|   |                            |
|---|----------------------------|
| <b>Total fund balances of governmental funds (Exhibit C)</b>  | \$ 652,588                 |
| <b><i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i></b>  |                            |
| Income surtax receivable at June 30, 2010 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets. | 122,537                    |
| Internal Service fund assets that are to be included with governmental funds.   | 3,063                      |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.                                    | 868,739                    |
| Long-term liabilities, including other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.   | <u>(11,596)</u>            |
| <b>Net assets of governmental activities (Exhibit A)</b>  | <u><u>\$ 1,635,331</u></u> |

## FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2010

|   | General      | Student Activity | Management Levy | Physical Plant and Equipment Levy | Capital Projects | Total     |
|---|--------------|------------------|-----------------|-----------------------------------|------------------|-----------|
|   | \$           | \$               | \$              | \$                                | \$               | \$        |
| Revenues:                                   |              |                  |                 |                                   |                  |           |
| Local sources                               |              |                  |                 |                                   |                  |           |
| Local tax                                   | \$ 1,243,109 | -                | 59,766          | 26,118                            | 175,404          | 1,504,397 |
| Tuition                                     | 294,016      | -                | -               | -                                 | -                | 294,016   |
| Other                                       | 54,533       | 95,179           | 10,345          | 447                               | 848              | 161,352   |
| State sources                               | 1,044,757    | -                | -               | -                                 | -                | 1,044,757 |
| Federal sources                             | 286,231      | -                | -               | -                                 | -                | 286,231   |
| Total revenues                              | 2,922,646    | 95,179           | 70,111          | 26,565                            | 176,252          | 3,290,753 |
| Expenditures:                               |              |                  |                 |                                   |                  |           |
| Current:                                    |              |                  |                 |                                   |                  |           |
| Instruction                                 | 1,960,381    | 102,841          | 1,320           | -                                 | -                | 2,064,542 |
| Support services:                           |              |                  |                 |                                   |                  |           |
| Student services                            | 64,406       | -                | -               | -                                 | -                | 64,406    |
| Instructional staff services                | 109,555      | -                | -               | -                                 | 17,048           | 126,603   |
| Administration services                     | 499,861      | -                | 25,038          | -                                 | -                | 524,899   |
| Operation and maintenance of plant services | 221,736      | -                | 23,822          | -                                 | -                | 245,558   |
| Transportation services                     | 118,625      | -                | 9,058           | 51,748                            | -                | 179,431   |
|   | 1,014,183    | -                | 57,918          | 51,748                            | 17,048           | 1,140,897 |

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2010

|                                 | General   | Student Activity | Management Levy | Physical Plant and Equipment Levy | Capital Projects | Total     |
|---------------------------------|-----------|------------------|-----------------|-----------------------------------|------------------|-----------|
|                                 | \$        | \$               | \$              | \$                                | \$               | \$        |
| Other expenditures:             |           |                  |                 |                                   |                  |           |
| AEA flowthrough                 | 102,458   | -                | -               | -                                 | -                | 102,458   |
| Construction                    | -         | -                | -               | -                                 | 35,123           | 35,123    |
|                                 | 102,458   | -                | -               | -                                 | 35,123           | 137,581   |
| Total expenditures              | 3,077,022 | 102,841          | 59,238          | 51,748                            | 52,171           | 3,343,020 |
| Net change in fund balances     | (154,376) | (7,662)          | 10,873          | (25,183)                          | 124,081          | (52,267)  |
| Fund balances beginning of year | 172,434   | 112,642          | 82,988          | 70,386                            | 266,405          | 704,855   |
| Fund balances end of year       | \$ 18,058 | 104,980          | 93,861          | 45,203                            | 390,486          | 652,588   |

See notes to financial statements.

## FARRAGUT COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities

Year ended June 30, 2010

Net change in fund balances - total governmental funds (Exhibit E) \$ (52,267)

*Amounts reported for governmental activities in the Statement of Activities  
 are different because:*

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities, this represents the change from FY09 to FY10. 3,527

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

|                      |           |
|----------------------|-----------|
| Capital outlays      | 92,667    |
| Depreciation expense | (108,616) |

Other postemployment benefit expenses reported in the Statement of Net Assets do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (11,596)

Internal Service Fund transactions are not reported in the General Fund as revenues and expenditures, however the General Fund is the source of these revenues and use of the expenditures. 1,263

Change in net assets of governmental activities (Exhibit B) \$ (75,022)

## FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

Year ended June 30, 2010

|   | Business<br>Type    | Internal<br>Service  |
|---|---------------------|----------------------|
|   | School<br>Nutrition | Flexible<br>Benefits |
| <b>Assets</b>                                   |                     |                      |
| Cash and pooled investments                     | \$ 1,626            | 3,063                |
| Inventories                                     | 3,736               | -                    |
| Capital assets, net of accumulated depreciation | 323                 | -                    |
| <b>Total assets</b>                             | <u>5,685</u>        | <u>3,063</u>         |
| <b>Liabilities</b>                              |                     |                      |
| Accrued payroll and benefits                    | 704                 | -                    |
| Unearned revenues                               | 776                 | -                    |
|   | <u>1,480</u>        | <u>-</u>             |
| <b>Net Assets</b>                               |                     |                      |
| Invested in capital assets, net of related debt | 323                 | -                    |
| Restricted for health benefits                  | -                   | 3,063                |
| Unrestricted                                    | <u>3,882</u>        | <u>-</u>             |
| <b>Total net assets</b>                         | <u>\$ 4,205</u>     | <u>3,063</u>         |

See notes to financial statements.

## FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds

Year ended June 30, 2010

|                              | Business<br>Type    | Internal<br>Service  |
|------------------------------|---------------------|----------------------|
|                              | School<br>Nutrition | Flexible<br>Benefits |
| Operating revenue:           |                     |                      |
| Local sources:               |                     |                      |
| Charges for services         | \$ 54,655           | 5,513                |
| Operating expenses:          |                     |                      |
| Non-instructional programs:  |                     |                      |
| Food service operations:     |                     |                      |
| Salaries                     | 53,668              | -                    |
| Benefits                     | 7,509               | -                    |
| Supplies                     | 44,428              | -                    |
| Depreciation                 | 560                 | -                    |
|                              | 106,165             | -                    |
| Internal service programs:   |                     |                      |
| Benefits                     | -                   | 4,250                |
| Total operating expenses     | 106,165             | 4,250                |
| Operating income (loss)      | (51,510)            | 1,263                |
| Non-operating revenues:      |                     |                      |
| Interest on investments      | 10                  | -                    |
| State sources                | 1,141               | -                    |
| Federal sources              | 52,045              | -                    |
|                              | 53,196              | -                    |
| Net change in assets         | 1,686               | 1,263                |
| Net assets beginning of year | 2,519               | 1,800                |
| Net assets end of year       | \$ 4,205            | 3,063                |

See notes to financial statements.



## FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2010

|  | Business<br>Type<br>School<br>Nutrition<br>\$ | Internal<br>Service<br>Flexible<br>Benefits<br>\$ |
|--|---|---|
| Cash flows from operating activities:  |   |   |
| Cash received from sale of services  | \$ 55,431                                     | \$ 5,513  |
| Cash payments to employees for services  | (66,865)                                      | (4,250)   |
| Cash payments to suppliers for goods or services   | (35,847)                                      | -   |
| Net cash provided by (used by) operating activities  | (47,281)                                      | 1,263   |
| Cash flows from non-capital financing activities:  |   |   |
| State grants received  | 1,141   | -   |
| Federal grants received  | 43,990  | -   |
| Net cash provided by non-capital financing activities  | 45,131  | -   |
| Cash flows from investing activities:  |   |   |
| Interest on investments  | 10  | -   |
| Net increase (decrease) in cash and cash equivalents   | (2,140)                                       | 1,263   |
| Cash and cash equivalents beginning of year  | 3,766   | 1,800   |
| Cash and cash equivalents end of year  | \$ 1,626                                      | 3,063   |
| <b>Reconciliation of operating income (loss) to<br/>net cash provided by (used by) operating activities:</b> |   |   |
| Operating income (loss)  | \$ (51,510)                                   | 1,263   |
| Adjustments to reconcile operating income (loss) to net cash<br>provided by (used by) operating activities:  |   |   |
| Depreciation   | 560   | -   |
| Commodities used   | 8,055   | -   |
| Decrease in inventory  | 526   | -   |
| Increase in unearned revenues  | 776   | -   |
| (Decrease) in accrued payroll and benefits   | (5,688)                                       | -   |
|  | \$ (47,281)                                   | 1,263   |

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2010, the District received federal commodities valued at \$8,055.

See notes to financial statements.

## FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2010

|                           | Private<br>Purpose<br>Trusts<br><u>Scholarships</u> |
|---------------------------|---|
| <b>Assets</b>             |   |
| Cash                      | \$ <u>33,459</u>                                    |
| <b>Total assets</b>       | <u>33,459</u>                                       |
| <b>Net Assets</b>         |   |
| Reserved for scholarships | <u>33,459</u>                                       |
| <b>Total net assets</b>   | <u>\$ 33,459</u>                                    |

See notes to financial statements.

## FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2010

|                              | Private<br>Purpose<br>Trusts<br><u>Scholarships</u> |
|------------------------------|---|
| Additions:                   |   |
| Local sources:               |   |
| Miscellaneous                | \$ 1,416  |
| Total additions              | <u>1,416</u>  |
| Deductions:                  |   |
| Support services:            |   |
| Scholarships                 | <u>500</u>  |
| Total deductions             | <u>500</u>  |
| Change in net assets         | 916   |
| Net assets beginning of year | <u>32,543</u>                                       |
| Net assets end of year       | <u>\$ 33,459</u>                                    |

See notes to financial statements.

## FARRAGUT COMMUNITY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2010

#### (1) Summary of Significant Accounting Policies

Farragut Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Farragut, Iowa, and agricultural area in Fremont County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

##### A. Reporting Entity

For financial reporting purposes, Farragut Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Farragut Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fremont County Assessor Conference Board.

##### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets*, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition and Internal Service Funds. These funds are used to account for the food service operations and flex spending program of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Funds are used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

| <u>Asset Class</u>                | <u>Amount</u> |
|-----------------------------------|---------------|
| Land                              | \$ 1,000      |
| Buildings                         | 10,000        |
| Improvements other than buildings | 10,000        |
| Furniture and equipment:          |               |
| School Nutrition Fund equipment   | 10,000        |
| Other furniture and equipment     | 10,000        |
| Intangible assets                 | 50,000        |

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u>                | <u>Estimated<br/>Useful Lives<br/>(In Years)</u> |
|-----------------------------------|--|
| Buildings                         | 50 years   |
| Improvements other than buildings | 20-50 years                                      |
| Furniture and equipment           | 5-15 years                                       |

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent grant proceeds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2010.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

#### **(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the District had investments in the Iowa Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$204,194 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.



### (3) Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

|  | Balance<br>Beginning<br>of Year | Increases | Decreases | Balance<br>End of<br>Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| <b>Governmental activities:</b>                              |                                 |           |           |                           |
| Capital assets not being depreciated:                        |                                 |           |           |                           |
| Land   | \$ 15,020                       | -         | -         | 15,020                    |
| Capital assets being depreciated:                            |                                 |           |           |                           |
| Land improvements  | 363,818                         | -         | -         | 363,818                   |
| Buildings  | 1,871,568                       | -         | -         | 1,871,568                 |
| Machinery and equipment                                      | 1,330,781                       | 92,667    | 23,230    | 1,400,218                 |
| Total capital assets being depreciated                       | 3,566,167                       | 92,667    | 23,230    | 3,635,604                 |
| Less accumulated depreciation for:                           |                                 |           |           |                           |
| Land improvements  | 237,208                         | 18,191    | -         | 255,399                   |
| Buildings  | 1,288,886                       | 34,345    | -         | 1,323,231                 |
| Machinery and equipment                                      | 1,170,405                       | 56,080    | 23,230    | 1,203,255                 |
| Total accumulated depreciation                               | 2,696,499                       | 108,616   | 23,230    | 2,781,885                 |
| Total capital assets being depreciated, net                  | 869,668                         | (15,949)  | -         | 853,719                   |
| Governmental activities, capital assets, net                 | \$ 884,688                      | (15,949)  | -         | 868,739                   |
| <b>Business type activities:</b>                             |                                 |           |           |                           |
| Furniture and equipment                                      | \$ 16,464                       | -         | -         | 16,464                    |
| Less accumulated depreciation                                | 15,581                          | 560       | -         | 16,141                    |
| Business type activities capital assets, net                 | \$ 883                          | (560)     | -         | 323                       |
| Depreciation expense was charged to the following functions: |                                 |           |           |                           |
| Governmental activities:                                     |                                 |           |           |                           |
| Support services:  |                                 |           |           |                           |
| Transportation   |                                 |           |           | \$ 23,257                 |
| Unallocated  |                                 |           |           | 85,359                    |
|  |                                 |           |           | <u>\$ 108,616</u>         |
| Business Type activities:                                    |                                 |           |           |                           |
| Food service operations                                      |                                 |           |           | <u>\$ 560</u>             |

### (4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$107,139, \$108,483, and \$100,346 respectively, equal to the required contributions for each year.

(5) **Risk Management**

Farragut Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) **Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$94,294 for year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) **Board Members**

It was approved to reduce the number of school board members from 7 to 5 effective with the September, 2011 election.

(8) **Sharing of Services**

The District began sharing the services of the business manager and superintendent positions in July, 2009 with the Hamburg Community School District.

(9) **Other Postemployment Benefits (OPEB)/Long-Term Debt**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription benefits for retirees and their spouses. There are 28 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

|  |                  |
|--|------------------|
| Annual required contribution               | \$ 15,451        |
| Interest on net OPEB Obligation            | -                |
| Adjustment to annual required contribution | -                |
| Annual OPEB Cost                           | 15,451           |
| Contributions made                         | (32,855)         |
| Increase in net OPEB obligation            | 11,596           |
| Net OPEB obligation beginning of year      | -                |
| Net OPEB obligation end of year            | <u>\$ 11,596</u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

| <u>Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|-------------------------|---|----------------------------|
| June 30, 2010     | \$15,451                | 24.9%   | \$11,596                   |

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$139,709, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$139,709. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,611,000 and the ratio of the UAAL to covered payroll was 8.7%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

The Net OPEB Obligation also represents the only long-term liability of the District. None of which is due in the next fiscal year.

## Required Supplementary Information

**FARRAGUT COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Funds  
Required Supplementary Information

Year ended June 30, 2010

|  | Governmental<br>Fund Types<br>Actual | Proprietary<br>Fund Type<br>Actual | Total<br>Actual | Budgeted Amounts<br>Original | Final       | Final to<br>Actual<br>Variance |
|--|--------------------------------------|------------------------------------|-----------------|------------------------------|-------------|--------------------------------|
| <b>Revenues:</b>   |                                      |                                    |                 |                              |             |                                |
| Local sources  | \$ 1,959,765                         | 54,665                             | 2,014,430       | 1,927,078                    | 1,927,078   | 87,352                         |
| State sources  | 1,044,757                            | 1,141                              | 1,045,898       | 1,443,827                    | 1,443,827   | (397,929)                      |
| Federal sources  | 286,231                              | 52,045                             | 338,276         | 223,000                      | 223,000     | 115,276                        |
| Total revenues   | 3,290,753                            | 107,851                            | 3,398,604       | 3,593,905                    | 3,593,905   | (195,301)                      |
| <b>Expenditures/Expenses:</b>  |                                      |                                    |                 |                              |             |                                |
| Instruction  | 2,064,542                            | -                                  | 2,064,542       | 2,429,823                    | 2,429,823   | 365,281                        |
| Support services   | 1,140,897                            | -                                  | 1,140,897       | 1,483,000                    | 1,483,000   | 342,103                        |
| Non-instructional programs   | -                                    | 106,165                            | 106,165         | 117,000                      | 117,000     | 10,835                         |
| Other expenditures   | 137,581                              | -                                  | 137,581         | 753,633                      | 753,633     | 616,052                        |
| Total expenditures/expenses  | 3,343,020                            | 106,165                            | 3,449,185       | 4,783,456                    | 4,783,456   | 1,334,271                      |
| <b>Excess (deficiency) of revenues<br/>over (under) expenditures/expenses</b>  | (52,267)                             | 1,686                              | (50,581)        | (1,189,551)                  | (1,189,551) | 1,138,970                      |
| <b>Other financing sources (uses)</b>  | -                                    | -                                  | -               | 650,000                      | 650,000     | (650,000)                      |
| <b>Excess (deficiency) of revenues and other financing<br/>sources over (under) expenditures/expenses and<br/>other financing uses</b> | (52,267)                             | 1,686                              | (50,581)        | (539,551)                    | (539,551)   | 488,970                        |
| <b>Balance beginning of year</b>   | 704,855                              | 2,519                              | 707,374         | 692,671                      | 692,671     | 14,703                         |
| <b>Balance end of year</b>   | \$ 652,588                           | 4,205                              | 656,793         | 153,120                      | 153,120     | 503,673                        |

See accompanying independent auditor's report.

**FARRAGUT COMMUNITY SCHOOL DISTRICT**

**Note to Required Supplementary Information - Budgetary Reporting**

**Year ended June 30, 2010**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the  
Retiree Health Plan  
(In Thousands)

Required Supplementary Information

| Year<br>Ended<br>June 30, | Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>( (b-a) / c ) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2010                      | Jul 1, 2009                    | \$0                                    | \$140   | \$140                              | 0.0%                     | \$1,611                   | 8.7%  |

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

## Other Supplementary Information



## FARRAGUT COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

| Account                  | Balance<br>Beginning<br>of Year | Revenues | Expenditures | Balance<br>End of<br>Year |
|--------------------------|---------------------------------|----------|--------------|---------------------------|
| Athletics                | 3,635                           | 22,668   | 18,351       | 7,952                     |
| Pep Club                 | 3,861                           | 717      | 1,203        | 3,375                     |
| Jr High Cheerleaders     | 1,199                           | -        | 143          | 1,056                     |
| Drama                    | 6,113                           | 652      | 833          | 5,932                     |
| French                   | 329                             | -        | -            | 329                       |
| FFA                      | 6,110                           | 7,619    | 8,469        | 5,260                     |
| FCCLA                    | 1,628                           | 1,225    | 1,004        | 1,849                     |
| Yearbook                 | 3,617                           | 6,757    | 7,794        | 2,580                     |
| Miscellaneous Activities | 518                             | 2,332    | 2,325        | 525                       |
| Vocal Music              | 1,554                           | 2,741    | 1,988        | 2,307                     |
| Resale                   | 18,926                          | 7,834    | 13,198       | 13,562                    |
| Art Resale               | 437                             | 3,126    | 2,738        | 825                       |
| Student Council          | 332                             | 254      | 40           | 546                       |
| Concessions              | 588                             | 15,694   | 15,802       | 480                       |
| Instrumental Music       | (299)                           | 1,743    | 1,506        | (62)                      |
| Tournament Fund          | 4,159                           | 9,784    | 7,615        | 6,328                     |
| Vending                  | 12,293                          | -        | 5,982        | 6,311                     |
| Pictures                 | 3,370                           | 248      | 500          | 3,118                     |
| Greenhouse               | 939                             | -        | 389          | 550                       |
| Class of 2009            | 1,303                           | -        | 1,303        | -                         |
| Class of 2010            | 4,003                           | 1,612    | 5,035        | 580                       |
| Class of 2011            | 1,638                           | 1,764    | 1,649        | 1,753                     |
| Class of 2012            | 457                             | 1,510    | 845          | 1,122                     |
| Class of 2013            | -                               | 2,923    | 1,882        | 1,041                     |
| Past Classes             | 8,553                           | 1,224    | -            | 9,777                     |
| Investments              | 27,106                          | 438      | 909          | 26,635                    |
| Honor Society            | 1,080                           | 507      | 276          | 1,311                     |
| CPR                      | 10                              | -        | -            | 10                        |
| Postage                  | (905)                           | 1,807    | 1,062        | (160)                     |
| ISJIT                    | 88                              | -        | -            | 88                        |
| Total                    | 112,642                         | 95,179   | 102,841      | 104,980                   |

See accompanying independent auditor's report.

## FARRAGUT COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Private Purpose Trusts

Year ended June 30, 2010

| Account                       | Balance<br>Beginning<br>of Year | Revenues     | Expenditures | Balance<br>End of<br>Year |
|-------------------------------|---------------------------------|--------------|--------------|---------------------------|
| Helen Limbacher Memorial      | \$ 2,733                        | 30           | -            | 2,763                     |
| Harold Penwell Memorial       | 21,623                          | 192          | 300          | 21,515                    |
| W.F. & Lucile Dreyer Memorial | 2,149                           | 34           | -            | 2,183                     |
| Bruce Gruber Memorial         | 192                             | 110          | 200          | 102                       |
| Clark-Campbell Memorial       | 2,682                           | 32           | -            | 2,714                     |
| Class of 48 Scholarship       | 25                              | -            | -            | 25                        |
| Scott Memorial                | 1,500                           | 1,000        | -            | 2,500                     |
| Richards Memorial             | 500                             | -            | -            | 500                       |
| Elizabeth O'Brien Memorial    | 1,139                           | 18           | -            | 1,157                     |
| Total                         | <u>\$ 32,543</u>                | <u>1,416</u> | <u>500</u>   | <u>33,459</u>             |

See accompanying independent auditor's report.



# BRUCE D. FRINK

## Certified Public Accountant

### Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

### Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

### Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Farragut Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Farragut Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 21, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Farragut Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Farragut Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Farragut Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-10 and I-B-10 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-C-10 to be a significant deficiency.

### Compliance and Other Matters

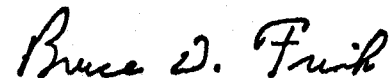
As part of obtaining reasonable assurance about whether Farragut Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Farragut Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Farragut Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Farragut Community School District and other parties to whom Farragut Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Farragut Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK  
Certified Public Accountant

April 21, 2011

FARRAGUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2010

**Part I: Findings Related to the Financial Statements:**

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-10 SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

I-B-10 AUDITOR DRAFTING OF THE FINANCIAL STATEMENTS AND RELATED FOOTNOTE DISCLOSURES

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy; we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2010

**Part I: Findings Related to the Financial Statements:**  
(continued)

I-C-10 CAR MISSTATEMENT

Comment - We noted that governmental receivables in the General Fund were overstated by \$76,834 in the Certified Annual Report. This came about as a result of recording an amount due from Hamburg Community School District being recorded as a deposit in transit and also as a receivable.

Recommendation - We recommend that the District correct this amount on the June 30, 2011 report. We also recommend that a thorough review of bank cutoff procedures and accruals be done in order to avoid such occurrences in future years.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-10 Certified Budget - Expenditures for the year ended June 30, 2010, did not exceed the certified budget amount in any of the four functions. The District did not exceed its unspent authorized budget.

II-B-10 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses officials or employees were noted.

IV-D-10 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

| <u>Name, Title and<br/>Business Connection</u> | <u>Transaction<br/>Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Kelly Carey<br>Board member                    | Drama Coach                        | \$2,500       |

In accordance with Chapter 279.7A of the Code of Iowa these transactions do not appear to represent conflicts of interest since they do not exceed \$2,500 for the fiscal year.

Recommendation - The District should review these expenditures to ensure legal compliance.

Response - We will review these on an annual basis and consult with our attorney when needed.

Conclusion - Response accepted.

II-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**FARRAGUT COMMUNITY SCHOOL DISTRICT**

Schedule of Findings

Year ended June 30, 2010

**Part II: Other Findings Related to Required Statutory Reporting:**  
(continued)

- II-F-10      Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- II-G-10      Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-H-10      Certified Annual Report - The Certified Annual Report was certified timely with the Department of Education.
- II-I-10      Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-J-10      Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-K-10      Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-10      Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

|   |                  |
|---|------------------|
| Beginning balance                             | \$110,225        |
| Statewide sales, services and use tax revenue | 176,252          |
| Expenditures/transfers out:                   |                  |
| School infrastructure:                        |                  |
| Improvements                                  | (52,171)         |
| Ending balance                                | <u>\$234,306</u> |

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

|                                   | Per \$1,000<br>Of Taxable<br>Valuation | Property<br>Tax<br>Dollars |
|-----------------------------------|--|----------------------------|
| Physical Plant and Equipment Levy | \$ <u>.33</u>                          | <u>26,766</u>              |